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ABSTRACT

This report examines traditional and newer forms of school district entrepreneurship and its impact on school district revenues. The report describes forms that have become well-established, such as school and parent fund raising, local educational foundations, business-education partnerships, and student fees. New forms of educational entrepreneurship include commercial advertising, corporate sponsorship and merchandising efforts, the recruitment of tuition-paying students, and development-impact fees. Although the generation of alternative revenues may provide opportunities for school districts, it also presents concerns for school officials and state policymakers regarding equity, accountability, and taxpayer support. Recommendations for state policymakers include: (1) conduct a survey of school districts to identify the types of entrepreneurial activity and the amount of revenues generated; (2) review the state education accounting system to ensure that alternative revenue sources are accounted for in a systematic manner at the district and school levels; (3) analyze existing statutes and administrative regulations to determine if they offer sufficient guidelines for school districts in new areas of entrepreneurship; and (4) consider a study to determine the impact of school district entrepreneurship on interdistrict and intradistrict fiscal equity. Contains a 13-item list of state legislative reports and 16 notes. (LMI)

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WHEN SCHOOL DISTRICTS BECOME ENTREPRENEURS: OPPORTUNITY OR DANGER?

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TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

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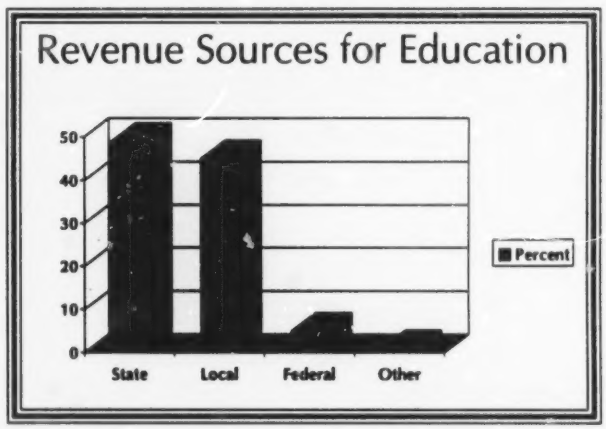
In order to supplement local budgets, school districts in many states are turning to novel ways of raising revenues that fall outside traditional state, local and federal tax-funded sources. (1, pp. 10-11) Some media accounts suggest school districts can reap sizable revenues from entrepreneurial ventures, such as commercial advertising, corporate sponsorships and recruitment of tuition-paying students. From a state policy viewpoint, however, alternative revenue sources can create dangers as well as opportunities. As interest in educational entrepreneurship increases, educational policymakers will want to consider the appropriate state role in structuring how school districts obtain, allocate and account for discretionary revenues. Balancing state education finance equity goals and school district accountability with respect for local autonomy can present a serious challenge. This state legislative report examines traditional as well as newer forms of school district entrepreneurship, its impact on school district revenues, and concludes with recommendations for state policymakers.



Traditional Forms of School District Entrepreneurship

Entrepreneurship in public elementary and secondary education is not new. For decades school districts have found ways to generate money outside state and local tax revenues, with the proceeds earmarked for "extras" such as athletic uniforms or field trips. What appears new

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is the increased aggressiveness with which school districts are pursuing alternative sources of revenue and the application of the funds to such budget line items as instructional salaries. This section describes forms that have become well-established over a number of years: school and parent fundraising, local education foundations, business education partnerships and student fees.

School and Parent Fundraising

For many years, school fundraisers such as bake sales, carnivals, raffles and collection of grocery coupons have provided discretionary funds, usually targeted for specific educational or extracurricular purposes. Schools also have realized profits from ongoing enterprises including vending machines and supply stores. These efforts remain important to raising funds for activities like athletics. Schools continue to look for creative ways to generate these revenues; one California high school uses "cow chip bingo" as an annual event to raise money for athletic teams. (2, p. 3)

School fundraisers such as bake sales, carnivals and raffles traditionally have provided school discretionary funds.

Parent involvement in fundraising takes several forms—from individual parent activities to organized parent-teacher groups and special task forces. The nature of the involvement ranges from direct contributions of money to volunteerism. For example, the home-school association in an affluent Washington, D.C., neighborhood raises $100,000 annually for its elementary school. (3, p. B1) These funds are used to subsidize salary expenditures for a school nurse, art teacher, science teacher and teacher aides. Without these funds the school would not be able to have all of these "extras." In Brentwood, California, also an affluent community, the parent booster club at one elementary school raised $78,000, to subsidize instructional salaries for a computer instructor, music and art teacher, librarian and teacher aides. (4, p. 62) The parent teacher association president noted that without these additional funds, the school would be limited to offering a "meat and potatoes education." (4, p.62) In Kenilworth, an affluent Chicago suburb, the parent volunteer association raised $92,000 for the construction of a new playground for one elementary school. (4, p. 62) In Cincinnati, a parent task force raised $40,000 to repair two swimming pools at a local high school. A year later, however, the school district closed the pools because of insufficient maintenance funds. (5, p. B1)

In many schools, individual parents volunteer time and expertise, working as teacher aides, cleaning out classrooms in preparation for an exterminator, paving the school driveway and assisting in health screenings. (5, pp. B1, B8) In one California school district, the parent teacher association estimated parents volunteered 280,624 hours last year, which if calculated at an hourly wage of $8 would total $2.2 million. (5, pp. B1, B8) Through direct parent donations, an elementary school in Brookline, Massachusetts, has raised $30,000 for classroom computers. (4, p. 62) On a smaller scale, one New York City school newsletter solicits the "supply of the month" from parents, items such as chalk and copier paper. (5, p. B1)

Local Education Foundations

Nonprofit foundations formed to assist local school districts are another means of attracting money to augment general operating funds. Because most states consider school districts quasi-governmental units, the school district and foundation must be separate entities with

independent governance structures and boards. The role of school district officials is limited to an advisory capacity. A new national umbrella organization, the Public Education Fund Network, headquartered in Washington, D.C., now provides opportunities for local education foundations to communicate with one another and learn of successful fundraising activities in other school districts and states.

Local education foundations raise funds in a number of ways in addition to soliciting direct monetary donations. In one Arizona community, the local education foundation sells items of clothing left unclaimed at area drycleaners. (2, p.3) In Florida, the state is channeling part of the proceeds from a special license plate, called a "license to learn," to local education foundations. The plates cost $17, of which $2 goes to the state and the remainder to local education foundations. (2, p.3) Florida officials hope to generate $1 million annually. This represents only a fraction of the annual education budget of $12 billion however.

Business-Education Partnerships

The most common example of local business-education partnerships are adopt-a-school programs. The number of school-business partnerships has steadily increased in the 1980s and 1990s (6, pp. 107-118). These partnerships range from volunteering time to donating goods and services. For example, a business may release employees to speak to a classroom on various careers or participate in a school, or district level committee. A computer company may donate equipment to a school or a grocery store may provide soft drinks and snacks for a school-related event. Usually these partnerships do not involve direct transfers of money. In cases of donated equipment, maintenance and repair costs are the ongoing responsibility of the school district.

Student Fees

Public school districts cannot charge students true user fees for general education because of state constitutional provisions that establish the right to a free public education. However, some schools have charged user fees for extracurricular activities such as athletics, music and drama clubs for decades. In recent years, school districts have responded to equity and access concerns by waiving fees for students from low income families. In some cases, parent booster clubs raise funds to cover any shortfalls.

School districts are finding creative methods for generating revenues.

New Forms of Educational Entrepreneurship

In addition to traditional sources, school districts around the country have found several creative sources for generating revenues. Commercial advertising, corporate sponsorships, merchandising efforts, recruitment of tuition-paying students and utilization of development impact fees represent new categories of educational entrepreneurship.

Commercial Advertising

A Colorado Springs school district is believed to be the first in the nation to allow commercial advertising on school hall walls, athletic uniforms, newsletters, district reports, maps, sta-

dium walls and buses. (7, p. 1A) Advertisers include a soft drink company, a fast food restaurant and a local grocery store chain. The school district sought and obtained special permission from the Colorado Department of Education to engage in commercial advertising. In September 1993, school district officials contracted with an advertising firm, agreeing to pay the firm $10,000 in start-up costs. Forty-five percent of advertising revenues remain with the advertising agency while 55 percent will go to the school district. The school district estimates it will receive $54,000 in revenues from the first year of advertising, a small percentage of its annual $133 million budget. School district guidelines include a ban on any advertising that promotes hostility, disorder or violence; attacks on ethnic, racial or religious groups; the promotion of politics or religion; and the use of drugs, alcohol or firearms. (7, p. 19A)

In February, the Denver school board voted unanimously to allow advertising on school property, including gymnasium walls, bleachers, school buses, cafeterias and billboards on school grounds. (8, p. B12) A committee was formed to determine the extent and type of advertising and use of revenues. Like Colorado Springs, the Denver school board banned advertisements for controversial items like alcoholic beverages, cigarettes, illegal drugs and condoms.

The New York City schools also entered the field of advertising in May. Through agreement with bus owners, the school board places advertisements on buses and the district keeps the proceeds. (9, p. 6) School officials estimate annual revenues between $1 million and $5 million. The school board is contemplating other advertising such as billboards and allowing telephone companies to place cellular antennas on school buildings.

Sales of commercial advertising space and products bearing the school logo are among new fundraisers.

Corporate Sponsorship and Merchandising Efforts

School districts in several states, including Florida, Illinois, Nebraska and Utah, are active in seeking corporate sponsorships. (10, p. 8) In the past, securing corporate sponsors for state high school athletic tournaments was not unusual. Now school districts in states are joining together to actively seek corporate sponsorship for academic and extracurricular activities in addition to athletic events. (10, p. 8)

Other school districts are following a well-established tradition of fundraising by colleges and universities in marketing products bearing the school or district logo. These efforts include direct marketing of products, such as coffee mugs and tee shirts, royalties from the use of logos by other companies and catalog marketing. In addition, school districts have issued affinity credit cards with their respective logos. (10, p. 1)

Recruitment of Tuition-Paying Students

Some school districts, particularly those in more affluent suburbs with empty classroom space, recruit tuition-paying students from outside their boundaries. While programs like these have existed in the New York City area for some years, they appear to be on the rise. (11, p. A1) One Philadelphia suburban school advertises itself as a "quality alternative to private schools" in local newspapers in an effort to attract tuition students. (11, p. A16) Tuitions range from $4,500 to $11,000 but rarely reflect the school's actual per pupil expenditure. They are

set lower in order to be competitive with neighboring private schools although private school tuitions range from $1,500 to $20,000 nationally. (11, p. A16)

Development Impact Fees

Development impact fees are single payments required of home builders or developers to provide a share of the capital cost of providing major public facilities in a community such as roads, parks and schools. (12, pp. 3-5) Although they have been used to fund infrastructure projects for years, impact fees are now being used for the construction or expansion of school facilities in some states, particularly in localities experiencing rapid population growth. Although their use for school facilities has been challenged legally in at least two states, enabling legislation has been adopted in 19 states. (13, pp. 541-562). No states allow revenue from impact fees to be used for operating expenses of school districts.

Opportunities and Dangers of School District Entrepreneurship

While generating of alternative revenues may provide some important opportunities for local school districts, it also presents concerns for school officials and state policymakers with regard to equity, accountability and taxpayer support of school funding.

Discretionary revenues present challenges to fiscal equity, both in how funds are generated and how they are allocated.

Entrepreneurial activities have allowed schools to provide goods and services that parents and educators believe are important but cannot be funded with current levels of state aid and local tax revenues. Examples include the purchase of classroom computers so that children are not denied the competitive edge of computer literacy. Fundraising to provide art and music instruction speaks to parents' and teachers' desire for a well-rounded education. Generating revenues to hire teacher aides allows students the benefits of more individualized instruction. Entrepreneurial ventures may have important nonmonetary benefits for schools and local communities. Schools and communities working together toward a common goal in fundraising campaigns may generate a sense of pride and esprit de corps. School-business partnerships can open the schools to greater involvement and investment in education. One study of the increase in private sector support in the 1980s concluded that money may have had less impact than building support for public education. (14, pp. 63-80)

In the tradition of local autonomy of schools, these efforts appear laudable. However, intradistrict and interdistrict fiscal equity have become concerns. Intradistrict inequities emerge when the parent-teacher association of one school raises funds to provide classroom computers while a school a few blocks away has few or none. Interdistrict inequities may be exacerbated when affluent school districts who often spend at above average levels become entrepreneurial, widening the gap in available resources with less wealthy districts. Some educators maintain that affluent school districts have more resources to tap for entrepreneurial activities and are more savvy about the range of opportunities. Providing equal educational opportuni-

ties for all students is a hallmark of American public education. Discretionary revenues present challenges to fiscal equity, both in the ways funds are generated and allocated.

State-required reporting for entrepreneurial revenues varies tremendously.

States vary tremendously in the level of reporting required for revenues generated by entrepreneurial activities. In general the requirements are less stringent than those for traditional sources of revenue. On the one hand less strict accounting procedures allows schools greater latitude in using these revenues, but on the other hand state policymakers have little data on the extent of alternative revenue use by school districts across the state and their impact on equity.

Although entrepreneurship rarely generates significant amounts of revenue compared to state education funding and local tax revenues, it may influence public support for passage of tax levies and bond issues. Figure 1 shows the relative shares of education funding: federal, state, local, other. Alternative revenues fall into the "other category" and constitute less than one percent of education revenues. Local voters may begin to believe that an alternative revenue source, such as development impact fees, makes additional funds from bond elections for construction of new schools unnecessary. A recent Colorado study, for example, suggests there is a connection between imposing of school impact fees and failed bond elections. (15. pp. 11-14) At the same time, a Colorado school district official estimated that development impact fees for school construction would generate only 10 percent to 15 percent of the total cost. (16, p.11) Voter overestimation of the relative proportion of state education funding provided by state lotteries in those states that dedicate part or all of lottery profits to education serves as a case in point. A 1993 study of lotteries in 11 states concludes: "Indirect harm to education funding comes from the lack of public understanding about the effects of lottery funds on education. Obtaining more regular funding becomes difficult when the taxpaying public believes that the lottery is already fulfilling education funding needs." (1, p.15)

Recommendations for State Policymakers

State policymakers concerned about the nature and extent of school district entrepreneurship and its potential on education funding may want to:

- Survey school districts to determine the types of entrepreneurial activity and the amount of revenues generated.
- Review the state education accounting system to ensure that alternative revenue sources are accounted for in a systematic manner at the district and school levels.
- Conduct an analysis of existing statutes and administrative regulations to determine if they are sufficient to guide school districts in relatively new areas of entrepreneurship, such as commercial advertising, corporate sponsorships and merchandising efforts.
- Consider a study of the impact of school district entrepreneurship on interdistrict and intradistrict fiscal equity.

Given its long history, school district entrepreneurship is unlikely to disappear. Newer and more sophisticated forms of fundraising continue to emerge. State education policymakers need to be aware of the potential fiscal impacts of those activities while protecting the tradition of local school district autonomy.

Notes

1. "State-Run Lotteries: Their Effects on School Funding," *Concerns in Education.* Arlington, Virginia: Educational Research Service, 1993. Note that revenues from state lotteries are not mentioned specifically. Technically, a state-sponsored lottery is a voluntary privilege tax. Through the purchase of lottery ticket, individuals pay a tax to participate in a game of chance.

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4. Smolowe, Jill. "Beyond Bake Sales," *Time Magazine,* April 24, 1995, pp. 62-63.

5. Graham, Ellen. "Parents Clean, Shovel, Even Teach, to Aid Schools." *Wall Street Journal,* June 12, 1995, pp. B1, B8.

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11. Hernandez, Raymond. "Suburbs' Public Schools Seek Paying Pupils," *New York Times,*. January 1, 1995, pp. A1, A16.

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15. Bauman, Paul C. "Searching for Alternative Revenues: The Political Implications of School Impact Fees," *Journal of School Business Management* (in press).

16. Lindsey, Drew. "Growing Pains: Builders, Schools Fight Over Fees," *Education Week,* April 19, 1995, pp. 1, 10-11.

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